

The Complete Veteran Home Buyers Guide

VA Home Loan Buyer's Guide - To begin your mission of home ownership please visit

www.realtorjedwards.com

Overview

Created by the original G.I. Bill (*Servicemen's Readjustment Act of 1944*), the VA-Guaranteed Home Loan program has helped generations of Veterans, Servicemembers, and their families enjoy the dream of homeownership and the opportunity to retain their homes in times of temporary financial hardship.

Should you have any questions about the VA Home Loan benefit or issues with your current home loan, feel free to contact us at: **757-654-5563**.

What is the VA Home Loan 'Guaranty'?

The VA home loan guaranty is an agreement that VA will reimburse a lender (*such as banks, credit unions, mortgage companies, etc.*) in the event of loss due to foreclosure. This guaranty takes the place of your down payment.

VA Guaranty

Government promise to lenders

Replaces down payment
requirement

Lender Protection

Reduces lender risk

Enables competitive rates

Veteran Benefit

No down payment needed

Access to homeownership

Who is Eligible for a VA Home Loan?

Active-duty servicemembers and Veterans with discharges other than *dishonorable*, National Guard and Reserve service members and Veterans with an *honorable* discharge, certain eligible spouses, and other uniformed service personnel may be eligible for VA home loan guaranty benefits.

The full listing is available online at: <https://www.va.gov/housing-assistance/home-loans/eligibility/>.

VA Funding Fee

Yes, but the funding fee can be waived (*see list below*). To keep the program viable, Congress instituted a program funding fee, which is a percentage of the total loan amount. This user fee varies based whether the loan is a first-time or subsequent (second, third, etc.) use of the benefit. The funding fee may be paid in cash or included in the loan at closing.

***The funding fee can also be paid by the seller, lender, or any other party on your behalf.** (*See Chapter 8 of the Lenders Handbook*)

Who is **EXEMPT** from the VA funding fee:

- Veterans receiving VA compensation for a service-connected disability
- Veterans entitled to receive VA compensation for a service-connected disability, but receive retirement pay or active service pay
- Unremarried surviving spouses of Veterans who died in active service or from a service-connected disability
- Service member with a proposed or memorandum rating from VA, *prior* to loan closing, as eligible to receive compensation as a result of a pre-discharge claim
- Service member on active duty who provides, *on or before* the date of loan closing, evidence of having been awarded the Purple Heart

VA Loan Limits

There are no loan limits if one has full home loan benefit or full entitlement. If you are a first-time homebuyer or have sold your previous VA-backed home and paid your loan in full, you can enjoy VA-backing on a home loan regardless of home price and without the need for a down payment.¹ Of course, you must be able to afford the home and the property must appraise for at least the purchase price, otherwise you may have to make a small down payment.

¹ *Blue Water Navy Vietnam Veterans Act of 2019*, <https://www.congress.gov/bill/116th-congress/housebill/299/text>

Note: For loans made *prior* to 2020 that exceeded the Freddie Mac conforming loan limit, lenders required borrowers to pay a down payment for the loan amount above the county loan limit.

Buying Multiple Homes with VA Loans

While you can buy a home for any loan amount, you must either sell your previous home or understand VA rules on subsequent purchases and remaining entitlement. Those who purchase a subsequent home without selling their previous VA-guaranteed home will continue to follow their county conforming loan limit for the VA loan guaranty. This may mean a down payment on any amount above the loan limit.

Note: You must be able to afford **all** your VA loans at the same time and the subsequent home must become your **residence**. (See *Appendix D: Reusing the VA Loan* below or this blog)



Why Choose VA?

The VA Home Loan is often the best home loan product for Veterans. Some benefits include:



No down payment

As long as the sales price is at or below the home's appraised value



No loan limit

With full entitlement if you can afford the loan, VA will back loans in all areas of the country, regardless of home price



Competitive terms

Competitive terms and interest rates from private banks, mortgage lenders, or credit unions



No PMI/MIP

No need for private mortgage insurance (PMI) or mortgage insurance premiums (MIP)



Fewer closing costs

Which may be paid by the seller, lender, or any other party



No penalty fee

For paying off the loan early

VA Home Loan Process Overview

Buying a home can seem intimidating to first-time homebuyers. The intent of this guide is to help alleviate some of that stress by giving you the information you'll need to make the decisions right for you.

This guide is organized to explain the general VA homebuying process in a linear fashion. You can start with VA – from starting the home shopping through what do if you need to avoid foreclosure in the future.

01	02	03
Verify VA Home Loan eligibility Or if you meet the criteria for surviving spouse eligibility	Learn home-buying basics Before you shop around	Apply for Certificate of Eligibility Or apply through your lender
04	05	06
Know additional loan options For VA home loans	Gather required documents To provide to your lender	Learn about VA appraisal And 'VA Escape Clause'
07		
Post-closing knowledge Some things to know after you close on your loan		

Additional Guide Sections

Additional sections of this document include:

- Military service requirements, exemptions and other than honorable discharges
- Funding Fees
- Reusing the VA loan
- Who are eligible surviving spouses
- How to avoid foreclosure
- Some frequently asked questions
- Terms and definitions
- Native American Direct Loan Program

Eligibility Requirements

Based on your service to the country, you may be eligible for the VA Home Loan benefit. VA is the only organization that can determine eligibility for a VA direct or VA-backed home loan benefit based on your length of service or service commitment, duty status, and character of service. Details for determining eligibility (including calculating credible years of service) can be found in **Chapter 7** of the M26-1 Guaranteed Loan Processing Manual.



Length of Service

Minimum service requirements based on era



Character of Service

Discharge must be other than dishonorable



VA Determination

Only VA can determine final eligibility

Lenders' Borrowing Requirements

You must meet your lender's minimum or standards of *credit, income*, and any other requirements to approve a loan. **VA does NOT** require a minimum credit score, but most lenders will use a credit score to help determine your interest rate and to lower risk. Typically, lenders may want borrowers to have a minimum credit score.

Because different lenders have different requirements, feel free to shop around for a lender that meets *your* financial and homebuying needs.

 **Important:** VA does NOT require a minimum credit score, but most lenders will use your score to help determine your interest rate. Feel free to shop around for a lender that meets your financial and homebuying needs.

VA's Borrowing Requirements

VA does not determine how much you can borrow. However, unlike other loans, VA requires you to have enough income remaining after paying your mortgage and other financial obligations. This helps ensure you can afford homeownership and lessen the risk of defaulting on your loan.

Also, you must:

1

Live in the home being bought with the loan

2

Meet ONE of the following eligibility categories

Active-Duty Servicemember, Veteran, National Guard/Reserve, or Eligible Spouse

Active-Duty Servicemember Requirements

Active-Duty Servicemember: Currently on active duty and have served at least 90 continuous days.

Note: Active duty includes Active Guard Reserve (AGR) members activated under Title 10 U.S.C.



Veteran Requirements

Veteran: Veterans separated from active duty between **August 2, 1990** and the present (Gulf War era) must have served:

- 24 continuous months, **or**
- A full period (at least 90 days) for which you were called or ordered to active duty, **or**
- At least 90 days if discharged for a hardship, a reduction in force, or for convenience of the government, **or**
- Less than 90 days (if discharged for a service-connected disability)

Note: This includes Reserve and National Guard members called to active duty for at least 90 days. Active duty does not include active duty for training.



National Guard Active-Duty Requirements

NATIONAL GUARD on Active-duty:

- At least **90 days** of non-training active-duty service (shown on DD214 for the activation or any other documents to support the activation),
OR
- At least **90 days** of active service including at least **30 consecutive days** (shown as 32 USC sections 316, 502, 503, 504 or 505 activation on your DD214, annual point statements, DD220 with accompanying orders, or any other documents to support the activation)

Reserve Active-Duty Requirements

RESERVE on Active-duty:

- At least **90 days** of non-training active-duty service (shown on DD214 or any other documents to support the activation)

A **full listing** of length of service requirements for other eras is located [here](#).

Reserve/National Guard Service Member Requirements

Reserve / National Guard Service member: If not otherwise eligible (e.g., with prior active duty or Title 10 or Title 32 service listed under the '*Veteran*' section above), this includes those currently serving in the Selected Reserve or National Guard (member of an active unit, attending required weekend drills, and two-week active duty for training). You must complete a total of **six credible years** and **ONE** of the following:

- Continue to serve in the Selected Reserve.
- Serve as Active Guard Reserve (AGR).
- Placed on the retired list.
- Transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service characterized as honorable service.

Note: **AGR** Service members (on **Title 32 U.S.C.** orders) and Individual Mobilization Augmentee (**IMA**) Service members must meet the 6-year requirement. Periods of Inactive Ready Reserve (**IRR**) service are **NOT** creditable toward the 6-year requirement.

Reserve/National Guard Veteran Requirements

Reserve / National Guard Veteran: If not otherwise eligible (*see '**Veteran**' *section above*), you must have completed a total of **six credible years** in the Selected Reserve or National Guard (member of an active unit, attended required weekend drills and two-week active duty for training) and **ONE** of the following:

- Discharged with an **honorable** discharge, **or**
- Placed on the retired list, **or**
- Were transferred to the Standby Reserve or an element of the Ready Reserve other than the Selected Reserve after service characterized as honorable service.

Note: Periods of Inactive Ready Reserve (**IRR**) service are **NOT** creditable toward the 6-year requirement Individuals who completed *less than six years* may be eligible if discharged for a service-connected disability. For discharge status that is **not** honorable, see the Other Than Honorable, Bad Conduct, or Dishonorable discharges under *Appendix A* below.

Eligible Spouses

Eligible Spouses: The spouse of a Veteran can also apply for home loan eligibility if they **1)** are eligible for, or in receipt of, a qualifying Dependency and Indemnity Compensation (DIC) benefit award, and **2)** under **ONE** of the following conditions:

- Unremarried surviving spouse of a Veteran who died while in service (active, reserve, or national guard) or from a service-connected disability, **or**
- Unremarried surviving spouse of certain totally disabled (100% rated) Veteran whose disability may not have been the cause of death, **or**
- Surviving spouse who remarries on or after December 16, 2003 after attaining age 57, **or**
- Spouse of a living Service member missing in action (MIA) or a prisoner of war (POW) for more than 90 days, for as long as the Service member is in that status (*this is one-time use only*)²

Note: More information is available below in *Appendix E: Eligible Spouses*

² See paragraph 3 of 38 U.S.C §3701(b)

Other Eligible Borrowers

Other eligible borrowers:

- A U.S. citizen who served in the Armed Forces of a government allied with the United States in World War II
- Served as a member in certain organizations, such as:
 - Cadet at the United States Military, Air Force, or Coast Guard Academy
 - Commissioned Officers of the Public Health Service
 - Officer of the National Oceanic & Atmospheric Administration (NOAA)
 - Midshipman at the United States Naval Academy
 - Merchant seaman during World War II

Details for other eligible borrowers can be found in **Chapter 7** of the M26-1 Guaranteed Loan Processing Manual



Before Borrowing

Before buying a home, you should consider the costs and benefits of homeownership. While renting a home can offer flexibility and limited responsibility for maintenance, rent can change over time, the owner can sell the property, and you may or may not receive your security deposit when you move. Homeownership, over the long-term can offer benefits such as relatively stable monthly mortgage payments and a way to build wealth for you and your family.

VA highly recommends that you determine your priorities before buying a home, such as what you are willing to spend each month on a mortgage and what other expenses (vehicle, childcare, etc.) you will have to consider. Only *you* can determine what meets your housing and financial needs.

Note: The Consumer Financial Protection Bureau (CFPB) offers tools and resources to help you find the right home loan for you at: <https://www.consumerfinance.gov/owning-a-home/>.

When you are ready to buy a home or refinance your loan, VA will be there to serve you throughout the life of the loan.

Beginning the VA Home Loan Process

Below are the general steps for starting the home buying process.

01

Apply for your VA home loan Certificate of Eligibility (COE)

The COE verifies to your lender that you qualify for the VA home loan benefit. If you have used your loan benefit in the past, a current COE may be helpful to know how much remaining entitlement you have or to ensure your entitlement was restored for previous VA-backed loans that were paid in full.

02

Look at your current finances

Review your credit profile, income, expenses, and monthly budget to make sure you're ready to buy a home. Decide how much you want to spend on a mortgage—and be sure to include closing costs in the overall price. Get more advice from the Consumer Financial Protection Bureau.

03

Choose a lender

You can go through a private bank, mortgage company, or credit union to get your loan. Lenders offer different loan interest rates and fees, so shop around for the loan that best meets your needs.

04

Choose a real estate agent

Meet with several real estate agents and then select one to represent you in the homebuying process. You can take your lender's pre-approval letter to your real estate agent and begin shopping. Read all agreements—and make sure you understand any charges, fees, and commissions—before signing with an agent. Remember they work for you and should put your interests first.

05

Shop for a home

Look at houses in your price range until you find one that works for you.

Helpful Tips for Getting Started

Know your lender's credit requirements

VA does NOT require a minimum credit score, but most lenders will use a credit score to help determine your interest rate. Typically, lenders may want borrowers to have a minimum credit score of 620, unless there is a large down payment.

Know what is in your credit history

Consumer Financial Protection Bureau (CFPB) recommends that borrowers get a free copy of their credit report from the three nationwide credit reporting companies. This also offers an opportunity to correct errors and strengthen your scores:

- Visit AnnualCreditReport.com, *OR* use the automated phone system at **1-877-322-8228**

Note: Anyone can receive one free credit report from each company, every 12 months

Shopping for a Lender

Lenders offer competitive interest rates, fees, and closing costs on VA-backed purchase loans. You can start by looking around for a network of people and information you trust to help you through the process. You can start gathering facts about your finances, so you'll have them ready at your fingertips.

- Ask multiple lenders for a Loan Estimate and review the helpful guide on **comparing loan offers** at: <https://www.consumerfinance.gov/owning-a-home/process/compare/>
 - *Note:* Multiple credit checks from mortgage lenders **within a 45-day window** are recorded on your credit report as a *single inquiry*.³
- Explore interest rates with CFPB's *Interest Rate Explorer*: <https://www.consumerfinance.gov/owning-a-home/explore-rates/>

³ CFPB, *What exactly happens when a mortgage lender checks my credit?*

<https://www.consumerfinance.gov/askcfpb/what-exactly-happens-when-a-mortgage-lender-checks-my-credit-en-2005/>

Loan Terms and Types

Loan term VA loans can be issued for 30 years or 15 years. Shorter-term loans typically have a lower interest rate and lower total cost; however, they also have higher monthly payments. See more comparisons at:

<https://www.consumerfinance.gov/owning-a-home/loan-options/>.

- *Note:* For VA home loans, you can pay off (amortize) your loan **with NO** penalty or early payoff fee.

Fixed or ARM VA loans can be a fixed-rate or adjustable rate mortgage (ARM)

Fixed rate mortgage

(the *most common* VA loan option) This mortgage option has a set principal and interest payment throughout the life of the loan, no matter how rates change nationally. You may see slight increases in your monthly mortgage payment each year due to changes in local property taxes and insurance.

ARM

This is where your loan interest rate is adjusted periodically, based on an index. These loans may have a low introductory rate, but the rate can grow over time and so will your monthly mortgage payment.

More information on loan types is available at: <https://www.consumerfinance.gov/owning-a-home/loan-options/>

Additional Considerations

Energy and improvements

VA offers two loan options that can be utilized in conjunction with a VA purchase or refinance loan. These loans must be closed along with your VA loan. (See Energy Efficiency Improvement and Alteration and Repair loan sections below)

Purchasing a condo

VA maintains a list of approved condos. If the condo is not on the list, the project must be submitted to VA for review to ensure that it complies with VA requirements. (See *Chapter 10 of the Lenders Handbook*) For additional questions, you can contact VA at 1-877-827-3702.

Selling your current home to buy another

Generally, you can hold multiple home loans if you can afford all the loans. If your plan to purchase a new home is contingent on selling your current home, your lender can disregard the payments on the outstanding mortgage(s) and any consumer obligations that you intend to clear. Just be sure to speak with your lender on any required documentation.

Adverse items on your credit

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be re-established after you have made satisfactory payments for **12 months** after the date the last derogatory credit item was satisfied.

- In cases of bankruptcies see **Chapter 4** of the Lenders Handbook, *Topic 7: Credit History – Required Documentation and Analysis*.

General Mortgage Costs

Buying a home requires both one-time and recurring costs. VA policy allows sellers, lenders, or any other party to pay loan fees and charges on behalf of the borrower. (*See Chapter 8 of the Lenders Handbook*)

Although some additional costs are unique to certain localities, the *closing costs* generally include VA appraisal, credit report, survey, title evidence, recording fees, a 1 percent loan origination fee, and discount points. The closing costs and origination charge may not be included in the loan, except in VA refinancing loans.

VA requires you to have enough cash assets to cover:

- Closing costs, pre-paid costs, or discount points which are the borrower's responsibility and are not financed into the loan
- The difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA (i.e., negative equity)

Note: VA **does not** require you to have additional cash to cover a certain number of mortgage payments, unplanned expenses or other contingencies on the residence, or refinance of a residence. However, you may want to consider saving money for unforeseen circumstances or large purchases, such as replacing appliances, replacing a roof, or repainting walls.

Including Fees in Your Loan

Can I include any fees into the loan? The VA funding fee, if applicable, can be included in the purchase loan. No other fees and charges or discount points can be included in the loan amount for purchase or construction loans. Only refinancing loans may include other allowable fees and charges and discount points in the loan amount.

Below are some expenses for you to consider when you determine your financial plans for buying and maintaining a home.

One-Time Expenses

When purchasing a home there are will be many fees and options for you to consider. Some are required by VA or the lender, while others are optional, but may serve you as you make the investment in a home. This list in not all-inclusive.



VA Funding Fee

This is the user fee to utilize the VA home loan. Some borrowers may be exempt from paying the fee. *(see Appendix B: VA Funding Fee Tables for percentage or exemption)*



Appraisal (*Mandatory*)

The appraisal is required for purchase and cash-out refinance loans. A VA-approved appraiser will determine a reasonable value of the home. VA can then determine how much, if not all, of your loan to guarantee. The notice of value (NOV) generated from the appraisal provides comprehensive information on the home and may help you know if the home meets basic property requirements.



Closing Costs (*Mandatory*)

The fees paid at closing include (but not limited to) taxes, transfer fees, origination fees, and other customary costs. The seller, lender, or any other party can pay for fees and charges on your behalf. You can negotiate with the seller on splitting these costs, if any concessions do not exceed 4% of the sale.



Down payment (*Optional*)

If you choose to make one, this one-time cost can help lower both your monthly payment and overall outstanding loan amount.

Note: If your down payment is at least 5-percent, you can pay a lower VA funding fee, if you are not already exempt.

Additional One-Time Expenses



Discount Points (*Optional*)

While most lenders offer VA Home Loan borrowers competitive rates, borrowers can also opt to pay for an even lower interest rate by paying for discount points. The seller, lender, or any other party can pay for discount points (or other fees and charges) on your behalf.



Earnest Money Deposit (*Optional*)

This is a cash deposit used to hold a home you are bidding on. It shows that you are serious about purchasing that home.



Home Inspection (*Optional*)

VA highly recommends that you get a third-party to conduct a thorough inspection of the home. This is in addition to the appraisal. Your appraisal does not take the place of an inspection. You don't want to be surprised by something that will cost you later to repair or replace.



Title Insurance

Lender's Title Insurance -- (*Optional*) Most lenders require title insurance to protect them against legal claims against the home.

Owner's Title Insurance (*Optional*) While owner's title insurance is optional, it is highly recommended to purchase this one-time premium insurance. This can protect you if someone has a claim against the home before you purchased it, such as home repairs that weren't paid off when the seller sold the home.

Recurring Expenses

Beyond the purchase of your new home, you must consider the full cost of home ownership. This is not an all-inclusive list, but



Mortgage payment

This monthly expense includes payment towards the loan principal, interest, homeowner's insurance, and your estimated property taxes.
(see CFPB article for further explanation)



Homeowner's insurance

This is required for all mortgages. VA highly recommends that you shop around to find the coverage that can cover your home and personal property in the home, such as clothing and high-value items.



Utilities and Maintenance

This may include water, electricity, and gas. Maintenance costs can include general servicing or replacement of heating and cooling systems, water heaters, laundry machines, refrigerators, and ovens.



HOA/Condominium association fees

If required, these fees go towards upkeep of property and other services provided by the association, such as groundskeeping, swimming pools, and security.

Buying a Home with a VA-Guaranteed Loan

Buying a home is a process. It requires a combination of filling out forms, verifying ability to pay, and meeting the interests of both buyer and seller. Getting a VA-backed home loan is only one piece of the puzzle. Here are some general steps in the home buying process:⁴

Lenders offer competitive interest rates on VA-guaranteed loans. This can help borrowers buy a home especially if they don't want to make a down payment. You may be able to get a VA-guaranteed purchase loan if you meet **all the requirements listed below**:

1 Qualify for a VA-guaranteed home loan Certificate of Eligibility (COE)

2 Meet VA—and your lender's—standards for credit, income, and any other requirements

3 Will live in the home you're buying with the loan

⁴ Source: <https://www.va.gov/housing-assistance/home-loans/loan-types/purchase-loan/>

What You Can Buy with a VA Loan

If eligible for a VA-guaranteed purchase loan, you can use the loan to:

Single-family home, townhouse, or multi-family up to 4 units

Condo in a VA-approved project

Buy a home and improve it

Manufactured home and lot

Build a new home

Make energy efficient changes or add new features

You can also:

- *Re-use* a VA loan benefit if selling or refinancing a home bought with a VA-guaranteed home loan,
- *Assume* a VA-backed home loan (which means that instead of opening a new mortgage loan, the buyer takes over the seller's loan)

Note on purchasing a condo: VA maintains a list of approved condos. If the condo is not on the list, the project must be submitted to VA for review to ensure that it complies with VA requirements. (*See Chapter 10 of the Lenders Handbook*) For additional questions, contact VA at **1-877-827-3702**.

For more information, please visit the VA Home Loan program home page at:

<https://www.benefits.va.gov/HomeLoans/index.asp>.

Additional VA Loan Options

When purchasing or refinancing a home, you have some additional loan options that can be used in conjunction with your VA home loan. You can opt to make energy efficiency or other improvements when you purchase the home. However, these loan options must be closed *at the same time* as you close your VA home loan. So be sure *negotiate with your lender prior* to closing your VA home loan when you find the option that is best for your situation. (see *Chapter 7 of the Lenders Handbook*)



Energy Efficient Mortgage (EEM)

Up to \$6,000 for energy improvements



Alteration and Repair Loan

For home improvements and repairs



Construction Loan

To build a new home

Energy Efficient Mortgage (EEM)

EEMs are loans that cover the cost of making energy efficiency improvements to a home. VA allows **up to \$6,000** worth of improvements to be included in your loan. While this will slightly increase your monthly payment, the cost is normally offset by a reduction in utility costs over time.

You may wish to contact a qualified person or firm for a **home energy audit** to identify recommended energy efficiency improvements. In some areas, the utility company may perform this service.

Energy efficiency improvements may include (but not limited to):

- Solar heating and cooling systems
- Caulking and weather stripping
- Furnace efficiency modifications
- Clock thermostats
- New or additional insulation
- Storm windows/doors
- Heat pumps
- Other energy related improvements may also be considered

Note: An EEM is **not** a separate VA home loan product. An EEM can only be used *in conjunction* with a VA purchase loan, or an interest rate reduction refinance loan (IRRRL) secured by the dwelling. It must also be closed at the *same time* as the VA loan is closed.

EEM Process and Requirements

If you are interested in making energy improvements, be sure to find a lender willing and able to do this type of loan. Some lenders may not have experience with EEMs, but they can review **Chapter 7** of the Lenders Handbook or contact the nearest VA Regional Loan Center.

It is important that you work with your lender early in the loan process to determine the cost of improvements, monthly mortgage increase, and any funding fee increase.

Generally, efficiency improvements must be complete either before or within six months after loan closing. Your lender will set up an escrow to pay for any improvements after loan closing.

Note: **You are not required to make improvements.** Even after loan closing, you can contact your lender to cancel the EEM if you decide that improvements do not meet your personal, financial, or housing needs.

Alteration and Repair Loan

VA understands that the aging housing stock in the United States has contributed to an increased demand for alteration and repair loans. You can use the VA home loan to purchase or (cash-out) refinance homes that need alteration and/or repair.⁵

VA can guarantee a loan for alteration and repair:

- Made in conjunction with a **purchase** loan on the property, **OR**
- **Cash-out refinance** of a residence you already own and occupy as a home

Note: For purchase loans, VA will guarantee the *lesser* of the acquisition cost **OR** as-completed value determined by the VA appraiser. For refinance loans, you can use the as-completed value in the transaction.

VA allows improvements to be **included** in the value and completed **after closing** of the loan. Loan proceeds are paid out to the builder and/or contractor during the alteration/repair period. The lender must obtain **written approval** from you before each disbursement or draw payment to the builder and/or contractor.

⁵ The terms *alteration*, *repair*, *renovation*, and *improvement* are interchangeable

Alteration and Repair Requirements

You can alter a home to your preference, but the alterations and repairs must be those **ordinarily found** on similar property of comparable value in the community. Also, they must bring the home up to the VA's minimum property requirements. (*See Chapter 12 of the Lenders Handbook for more on minimum property requirements*)

Some common alterations and repairs include (but not limited to): roof, foundation, floors, plumbing, electrical, and HVAC system.

You may want to seek advice of an inspector or structural engineer for recommended upgrades. Also, VA highly recommends that you first consider the full cost of renovating a home, including anticipated and unanticipated costs (*which can grow as new issues are found*) and may include:

- Permit, inspection, title costs
- Labor costs
- Structural work
- Finance costs
- Removal of debris
- Changes in scope of work

Note: Not all lenders are able or willing to close alteration and repair loans. And not many lenders have experience with these loan types. Be sure to shop around for a lender that will meet your personal, financial, and housing needs.

Alteration and Repair Costs

To determine the acquisition costs for a purchase, add the following: Contract sales price, total cost of alterations and repairs, contingency reserve (if any up to 15 percent of the repair cost), inspection fees, title update fees, and permits.

Do I need to put in any money?

A **contingency reserve** is not required however, your lender may consider a contingency reserve if the project warrants it. The maximum contingency reserve is **15 percent** of the alteration and/or repair cost.

- For **purchases**, any unused contingency reserve funds are applied to the principal balance, unless it was paid in cash at closing. If you paid in cash, it can be returned to you.
- For **refinances**, any unused contingency reserve funds may be returned to you or applied to the principal balance at your discretion.

Choosing Builders and Contractors

Can I choose my builder or contractor?

Yes, you are free to choose your builder or contractor. However, they must be register with VA to obtain a VA builder identification number. (*See Chapter 10 of the Lenders Handbook*) Your lender may have additional requirements, such as ensuring the builder or contractor is licensed, bonded, and insured according to state and local requirements. A list may be found at <https://lgy.va.gov/lgyhub/>.

Instructions to become a registered builder with VA are at https://www.benefits.va.gov/HOMELOANS/appraiser_cv_builder_info.asp.

What if I change my mind on upgrades *during* construction?

You are permitted to pay for change orders and upgrades out of pocket. Any change order or upgrade made *after* the appraisal *cannot* be mortgaged into the new loan unless the appraisal is updated. Change orders must be approved, in advance, by the appraiser, to ensure there is no loss in value. If an appraisal is to be updated, your lender will be responsible for contacting the appraiser with the documented change order(s). You can pay an additional appraisal charge if change orders are requested. This additional appraisal charge may come out of available contingency reserve funds.

Construction Loan

The VA home loan can be used to construct a new residence. You can use the construction loan to build a home on property that you already own or want to buy as part of the loan.

Note: Construction loans include loans do **not** include newly developed properties where a builder is using their own funds for construction. You can still use the VA loan to purchase the property from the builder.

You must find a participating VA lender which offers options for construction loans. The interest rate varies from lender to lender, so VA strongly encourages you to shop around to multiple lenders to ensure you get the best rate and terms available for your mortgage needs. Once you decide on a participating lender, you can complete the building and lending process, to include closing the loan and paying all applicable fees.

(See Chapter 7 of the Lenders Handbook for more on construction home loans)

Note: **Not all lenders are willing or able to offer construction loans.** These types of loans and projects inherently have uncertain elements that require more careful examination compared to traditional purchase loans. Be sure to find a lender with specialized experience to originate, process, underwrite (you, project, and builder), close, service and administer such loans.

Construction Loan Process

Typically, construction timelines are established as part of the contract. Your lender is responsible for all aspects of project management and may set specific limitations. VA will not issue a Certificate of Guaranty to the lender until completion of the project.

Construction loans are closed *prior* to the start of construction with proceeds disbursed to cover the cost to build, cost of the land, or balance owed on the land, with the remaining balance in escrow, sometimes referred to as a *Loan in Process (LIP) account*, or a *Draw account*.

The escrowed monies are paid out to the builder during construction. Your lender must obtain your written approval before each disbursement, or draw payment, is provided to the builder.

You don't not have to make payments on your home loan until after construction is complete. The initial payment on the principal may be postponed up to 1 year. For example, if you have a 30-year mortgage and construction takes 6 months to complete, then you must repay your loan in 29 years and 6 months. You can work with your lender as to whether you have a balloon payment at the end of your loan or set up slightly larger payments to avoid the balloon payment.

Also, during construction, the builder is responsible for interest payments and all fees normally paid by builders with interim construction loans, such as *inspection fee*, *title updates*, *title update fees*, *hazard insurance*, and property taxes.

Types of Construction Loans

Two types construction to permanent loans:

One-time close (or single close) construction loan

This loan is used to close both the construction loan and permanent financing at the same time. The permanent financing is established prior to construction, and the final terms are modified to the permanent terms at the conclusion of construction.

Two-time close construction loan

This loan generally involves an initial loan closing prior to the start of construction, and a second closing where permanent financing is used to take out, or replace the initial loan

Construction Loan Details

Can my builder finance construction?

Yes, the builder can finance the construction from his or her own resources.

When do I have to pay the VA funding fee?

Unless you are exempt from paying it, the VA funding fee is due at loan closing prior to the start of construction. Your lender must submit that fee payment to VA within *15 days of loan closing*. Payment is not tied to the start or completion of construction.

How is my interest rate set?

Your lender may offer a "*ceiling-floor*" where the interest rate "floats" during construction. The agreement must provide that at lock-in, the permanent interest rate will not exceed a specific maximum interest rate while allowing you to lock-in at a lower rate based on market fluctuations. Interest rates vary from lender to lender. The rates available to the Service member or Veteran borrower will vary based on specific lender criteria for approving the loan and what the bank or non-bank lender offers, and VA strongly encourages all borrowers seeking to acquire a loan and purchase a home to shop around multiple lenders to ensure that they obtain the best mortgage terms available to them. **Note:** You must qualify for the mortgage at the maximum rate.

Farm Residence Loan

You can use your VA home loan benefit to purchase, construct, repair, alter, or improve a farm residence that you intend to occupy. You can also use the loan to construct a farm residence on land you already own. (*See Chapter 7 of the Lenders Handbook*)

The VA-guaranteed loan **cannot** cover:

- Non-residential value of farmland in excess of the home site, **OR**
- Barn, silo, or other outbuildings necessary for farm operations, **OR**
- Farm equipment or livestock

Note: When constructing a farm residence on land you own, you may use a portion of the loan to pay off liens on the land only if the reasonable value of the land is *at least equal to* the amount of the lien(s).

You can start a business on the farm you purchase, but keep in mind that the VA loan benefit exists to help you buy a home, not start a business. The VA loan can be used to purchase the residential portion of the farmland. However, you would need to secure a separate loan to purchase the non-residential portion of the land and any building or equipment associated with farming operations.

Farm Loan Requirements

If you plan to use farming operations income to support your loan payments, your lender will have to determine your ability and experience as a farm operator. The general procedures and analysis provided under "*Self-Employment Income*" is in *Chapter 4 of the Lenders Handbook*.

For **new farmers**, your lender will need the following:

- Your *proposed plan* for farm operations, including the number of acres for each crop, number of livestock, etc., to estimate your potential income and expenses.
- A *statement* that you own or will purchase the farm equipment required to operate the farm. If you will incur additional debt when purchasing this equipment, your statement should contain full details as to repayment terms, etc.
- An *estimate* of farm income and expenses by a local farm appraiser designated by VA or another qualified person, or the estimate used by a lender offering you an operating line of credit. The estimate should be based on your proposed plan of operation, ability and experience, and the nature and condition of the farm, including livestock and livestock products. The expense estimate must detail labor, seed, fertilizer, taxes and insurance, repairs, machinery, fuel, etc.
- A copy of a *commitment* from a lender for an operating line of credit or evidence of the resources to be used to cover operating expenses.

For **experienced farmers** continuing the same farm operation:

- If you finance operations from an operating line of credit, you will need to provide records of advances from, payments to, and carryover balances on the operating line of credit for at least the last 3 years.

Loan Assumption

One feature of the VA home loan is that it is *assumable*. This means that anyone can assume, or take over payment, on a VA home loan, if they qualify. It is a unique feature that gives you the option to purchase a home with a previously set interest rate or, in a time of need, avoid foreclosure.

There could be a situation where you are unable to pay back your loan or maybe you are simply unable to sell a home in your area. In any case, this feature of the VA home loan is meant to serve your needs.

Why would this be a benefit to you?

Interest Rate Advantage

When interest rates rise, assuming a low interest rate VA home loan could make the home more desirable to a purchaser

Low Funding Fee

The funding fee (unless exempt) is only **0.5%**

Entitlement Restoration

A Veteran can substitute their own VA home loan entitlement to assume your loan, thereby allowing VA to restore your entitlement, assuming the other Veteran has enough entitlement to cover your loan

Anyone Can Assume

Anyone, even a non-Veteran, can assume your loan, but in such case *your* entitlement remains with the loan

Loan Assumption Process

VA home loan assumption requires servicer approval, and in some instances VA approval. Be sure to work with your servicer to obtain approval for assumption. They will usually perform an income and credit check to be sure the assumer is a good risk and is not likely to default on the loan.

Note: You should be highly selective about who assumes your VA home loan. If there is a default on an assumed loan, it will count against *the original veteran's entitlement* and may affect your chance of securing another VA loan.

If another eligible borrower substitutes their VA entitlement, the following forms are required:

- Either a COE or fully completed VA Form 26-1880 (*Request for a Certificate of Eligibility*) for the assumer. The assumer must have enough entitlement to substitute for that of the original Veteran.
- A signed VA Form 26-8106 (*Statement of Veteran Assuming GI Loan*). The assumer must certify that the property securing the loan will be occupied as their home.

Note: If VA uses your entitlement to pay a claim on a defaulted loan, even if that loan has been assumed by someone else, you can't use that entitlement amount on a new loan. You must repay the claim amount to VA before your entitlement is restored. However, either you or the person that assumed your loan can repay it.

Contact Information and Resources

For any questions about the VA Home Loan benefit or issues with your current home loan, contact me at: **757-654-5563**.

Additional resources and information can be found at:

- VA Home Loan program: <https://www.benefits.va.gov/HomeLoans/index.asp>
- Eligibility information: <https://www.va.gov/housing-assistance/home-loans/eligibility/>
- Consumer Financial Protection Bureau: <https://www.consumerfinance.gov/owning-a-home/>
- VA Regional Loan Centers: https://www.benefits.va.gov/homeloans/contact_rlc_info.asp

Remember: VA will be there to serve you throughout the life of your loan. This comprehensive guide provides the foundation for your successful homeownership journey using your earned VA benefits.